

National Park Service
U.S. Department of the Interior
Commercial Services Program



Leasehold Surrender Interest (LSI) Valuation Alternative Formula

Concessions Management Advisory Board
September 2010

Authority for Use of Alternative Valuation Formulas for LSI in NPS Concession Contracts



- Use of Alternative Valuation Formula
 - Section 405(a)(4) of Public Law 105-391 authorizes the inclusion of alternative LSI value formulas in concession contracts estimated to have an LSI value in excess of \$10M

Background: Standard LSI Formula



- LSI value for applicable improvements provided by a concessioner under a National Park Service (NPS) concession contract as defined in 36 CFR Part 51 (“standard formula”) is as follows:
 - The initial construction cost of the related capital improvement;
 - Adjusted by (increased or decreased) the same percentage increase or decrease as the percentage increase or decrease in the Consumer Price Index from the date the Director approves the substantial completion of the construction of the related capital improvement to the date of payment of the LSI value;
 - Less depreciation of the related capital improvement on the basis of its condition as of the date of termination or expiration of the applicable LSI concession contract, or, if applicable, the date on which a concessioner ceases to utilize a related capital improvement.

Section 405 (a) 4: Two Alternative LSI Formulas



- A. Construction costs (initial LSI value) is straight-line depreciated in accordance with the tax laws and regulations of 1998
 - Formula can be used 9 years after the passage of the law on any contract with more than \$10M in LSI
- B. The Secretary may use an alternative formula that is determined necessary in order to provide a fair return to the Government and to foster competition for the new contract by providing a reasonable opportunity to make a profit under the new contract
 - Public comment required for Alternative B

NPS Proposed Use of an Alternative LSI Formula GRTE Signal Mountain Lodge (GRTE-003-11)



- Use of the alternative formula is a contract by contract determination
 - Formula designed for the specific operational and financial circumstances of a particular contract
- NPS published notice for comment in the Federal Register of its intent to use the Alternative Valuation Formula for LSI in the GRTE003-11
 - on February 1, 2010 and on May 26, 2010
- NPS published final decision on use of the LSI alternative for GRTE003-11 on September 3, 2010

Proposed Alternative LSI Formula – GRTE-003-11



- Original NPS proposed-alternative LSI formula had three components:
 1. Initial LSI value (as of the commencement of the contract);
 2. New LSI value, i.e., that credited during the term of the contract (as described in the next slide); and
 3. No additional LSI for fixture replacements.

Comments Received:



- NPS received comments from 2 entities to the initial notice and a comment from 2 entities to the second notice.
- In consideration of the comments, NPS re-examined the financial and other circumstances of the new contract and the proposed LSI alternative, leading to adoption of a final LSI alternative for the for the GRTE-003-11 Contract.

Final LSI Alternative Formula – GRTE 003-11



1. Reduces the initial LSI value under the new contract on an annual straight-line depreciation basis over a 40-year recovery period regardless of asset class
2. Reduces the LSI value in capital improvements (*including fixtures*) constructed or installed during the term of the contract on an annual straight-line depreciation basis over a 40-year recovery period regardless of asset class

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